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CBC
FEDERAL
CREDIT UNION

March 20, 2009

The Honorable Michael E. Fryzel
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

RE: Comments on the Corporate Credit Union System Strategy

Dear Chairman Fryzel, Vice Chairman Hood, and Board Member Hyland:

On behalf of CBC Federal Credit Union, charter 7608, we appreciate the opportunity to comment on the NCUA Board's recent actions to stabilize the corporate credit union system and the future controls over the corporate system.

We feel the need for a stabilization plan is twofold: liquidity and solvency. The root of the problem was not the economy as much as mismanagement by both corporate credit unions and NCUA staff. We feel some executives should be held accountable for the poor decisions that almost bankrupt the corporate credit union structure and our share insurance fund.

The liquidity issue can be solved with a number of actions, some you have already taken. The infusion of one billion dollars from the insurance fund, the encouragement of credit unions to participate in CU SIP program, and federal insurance covering all corporate deposits together have greatly alleviated the liquidity crisis. However, we feel that NCUA should take the steps necessary to make the Central Liquidity Facility (CLF) directly available to the corporate credit unions and this enhancement may minimize the need to tap the share insurance fund in the future for liquidity purposes.

The solvency issue is more complicated, serious and not as easily resolved. The projected investments at the corporates may continue to increase as the overall economy deteriorates. Some of the "book" losses will never recover because the collateral underlying the investments has defaulted. We are anxiously awaiting the results of the PIMCO analysis of the investments so we will have a more accurate assessment of future losses and threat to the share insurance fund.

NCUA needs to determine their role in this problem and not just blame the economy. Why did NCUA grant the corporate credit unions expanded investment authority if they do not have the capability to properly regulate the investments that were being made? If NCUA continues to allow the corporates expanded investment authority then NCUA must be certain that they have the staff or continually hire the expertise (like PIMCO) to properly and regularly examine an extremely complex investment portfolio. NCUA needs to determine why the corporates were chasing high yield which encouraged risky investments. Does the competition among corporates create an environment that they are "buying" deposits from natural person credit unions in order to grow?

We have personally experienced NCUA's deficiency in understanding investments. During our 2007 NCUA examination we received a document of resolution to sell 20% of our performing investment portfolio within 30 days because they determined the investments were too risky. We were a Camel 1 credit union but would be downgraded to a 4 if we did not sell the investments. All our investments were government insured and we had no liquidity issues. Interest rates were declining and we asked repeatedly to be able to divest our investments over a six-month to one-year time frame. We had pages of examples to show that NCUA was overestimating our risk and NCUA refused to review the documents. At the time we told them they should be concerned with uninsured investments like some of the corporates had bought. We sold our investments and realized a $3.4 million dollar loss because NCUA did not understand or take the time to learn about our specific investments. Within six months we could have sold many of our investments at par. NCUA's lack of understanding and unwillingness to learn cost our credit union members several million dollars. Now they are asking us to pay $1.8 million to bailout corporates that have riskier investments and liquidity problems because they do not want them to sell investments that are underwater. We wish this thinking and attitude prevailed when we presented our arguments. The bottom line is we feel NCUA's lack of investment expertise is going to unnecessarily cost our members' reserves $5.2 million in a two year span.

Going forward NCUA needs to consider limiting the size of an individual corporate credit union. It is obvious now, that there is a danger in having a concentration of so many assets in the hands of a few. Corporates are encouraged to expand if their primary function is to provide liquidity and investment options for natural person credit unions. NCUA could study and encourage; 1) credit unions to use the FHLB system for liquidity, 2) expand the use of the CLF, and 3) encourage small credit unions to invest in mid size and large credit unions up to $250K. These steps would help spread the risk to the share insurance fund around the country and with many credit unions.

Corporate credit unions provide a valuable service to our industry. The first priority should be to provide services and products to help natural person credit unions when affordable alternatives are not available. Many of the liquidity needs can be performed by the Federal Reserve and FHLB which would minimize the need for rapidly growing corporates.

If the corporates are allowed to have expanded investment authority and very complex investment portfolios they should pay for quarterly reviews by outside experts and publish the findings. NCUA may have to change the share insurance structure and assess the corporates a higher percentage on insured deposits than they assess natural person credit unions.

NCUA should identify the brokerage firms that encouraged the corporates to invest in highly risky securities with no guarantee of principal and ban them from future dealings with the corporates. Additionally, corporate investment officers should not solely rely on credit ratings from rating agencies. We have learned that many times a conflict of interest exists. Every investment should be evaluated at a collateral based level to get an understanding of the risk and potential loss inherent in the investment. If this had been done at the corporates they wouldn't have invested in the AAA bonds that they did because they would have understood the high risk of what they were buying.

Thank you for letting us candidly express our opinions. We urge the NCUA to fully investigate the reasons the corporates sought risky, high-yield, uninsured investments. It is not acceptable to blame the deteriorating economy for poor investment decisions made by the corporates. NCUA should realize the corporate stability crisis was preventable.

Sincerely,

Ray Ewin

Ray Ewin
President
CBC Federal Credit Union